

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Wyland et al. Analyst: Roger Lackey Bill Number: 1834

Related Bills: See Prior Analysis Telephone: 845-3627 Amended Date: 04-01-02

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Net Operating Loss Deduction 75%/15-year carryover

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

☒ DEPARTMENT POSITION CHANGED TO Support if Amended.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED  
☒ January 23, 2002, STILL APPLIES.

OTHER – See comments below.

## SUMMARY

This bill would allow:

- a net operating loss (NOL) carryover of 75%, and
- an NOL carryover period of 15 years.

## SUMMARY OF AMENDMENTS

The April 1, 2002, amendments reduced the NOL carryover from 100% of the federal NOL to 75%, and reduced the carryover period from 20 years to 15 years. As a result of the amendments, the implementation considerations and policy consideration identified in the department's analysis of the bill as introduced January 23, 2002, no longer apply. A new implementation consideration and a new revenue estimate are included below. The remainder of the department's analysis of the bill as introduced January 23, 2002, still applies.

## POSITION

Support, if amended.

At its March 6, 2002, meeting the Franchise Tax Board voted to support the bill as introduced January 23, 2002, if the bill were amended to resolve the department's concerns. The April 1, 2002, amendment resolved the department's concerns. However, the bill also no longer conforms to the federal NOL.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input checked="" type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input type="checkbox"/> PENDING

Legislative Director

Date

Brian Putler

04/11/02

## IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

## **ECONOMIC IMPACT**

### Revenue Estimate

This bill is estimated to impact revenue as shown in the following table.

Revenue Impact of AB 1834 Tax Years Beginning On or After January 1, 2003 Enactment Assumed After June 30, 2002 (\$ Millions)			
Fiscal Year	2002-03	2003-04	2004-05
PIT Impact	-1	-6	-15
Corporation Impact	-2	-19	-50
Total Impact	-3	-25	-65

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

### Revenue Discussion

Revenue losses associated with this bill would continue to grow significantly over the next several fiscal years. Revenue losses under the Personal Income Tax and the Corporation Tax laws would depend on the amount of additional net operating loss deductions that can be applied against taxable income.

The above estimates are based on prior year tax return data that indicate the total amount of net operating losses, and the amounts applied under current law to reduce tax liabilities. This data was then simulated for future years to determine the additional loss that could be applied using a 75% carryover starting in 2003.

## **LEGISLATIVE STAFF CONTACT**

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